

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF MEADE COUNTY RURAL)	
ELECTRIC CORPORATION FOR A)	CASE NO. 97-209
DECREASE IN EXISTING RATES)	

O R D E R

On July 1, 1997, Meade County Rural Electric Cooperative Corporation ("Meade County RECC") applied for approval of tariffs which reflect proposed reductions in the rates of its wholesale supplier Big Rivers Electric Corporation ("Big Rivers").¹ The decrease in power costs proposed by Big Rivers became effective September 2, 1997, subject to further modification. Meade County RECC's proposed rates became effective simultaneously under the same conditions.²

On April 30, 1998, the Commission approved new rates for service for Big Rivers. Although the Commission ordered different rates than those that Big Rivers originally proposed, Meade RECC's wholesale power costs savings of \$1,307,206 is the same as that produced under Big Rivers' proposal. The manner in which this reduction in wholesale

¹ Case No. 97-204, The Application of Big Rivers Electric Corporation, Louisville Gas and Electric Company, Western Kentucky Energy Corp., Western Kentucky Leasing Corp., and LG&E Station Two Inc. for Approval of Wholesale Rate Adjustment for Big Rivers Electric Corporation and For Approval of Transaction (filed June 30, 1997).

² After permitting the proposed rates to become effective subject to refund, the Commission established a procedural schedule in this matter and permitted the Attorney General of the Commonwealth of Kentucky to intervene as a party. After the parties conducted extensive discovery, the Commission on March 2, 1998 held a public hearing.

power costs is passed on to Meade RECC's customers through reduced rates is discussed below.

ALLOCATION AND RATE DESIGN ISSUES

Meade County proposed to reduce its rates to reflect the full amount of Big Rivers' wholesale rate reduction. Because Big Rivers' proposed rates result in a reduction in Meade County's demand costs and an increase in its energy costs, Meade County proposed the use of a multiplier to allocate the demand cost reduction across all customer classes and the use of an energy adder to allocate the increase in energy charges. This approach results in a straight pass-through of the Big Rivers decrease with no change to Meade County's existing rate design and no effect on its financial condition.

While accepting Meade County's proposed method of allocating the revenue reduction among customer classes, the Attorney General ("AG") argues for changes in Meade County's present rate design within three of its four basic customer classes. He asserts that the Commission should end the use of declining block rates in Schedule I, Schedule II, and Schedule III and establish a flat energy rate for each. The AG argues that Meade County's use of declining block rates is unsupported by any study or empirical evidence. He asserts that such rates encourage waste and inefficiency and, given the limits upon Big Rivers' surplus capacity as a result of its leasing agreement with LG&E Energy, Meade County should place greater emphasis upon demand-side management and energy conservation.

Meade County counters that the use of a flat rate represents a drastic departure in rate design that should not be imposed in a limited flow-through case. It further argues that the immediate use of a flat rate rather than limited modifications to the existing declining

block rates is contrary to the Commission's policy of gradualism and should not be imposed without a current cost-of-service study. No such study has been presented here.

Having considered the evidence of record, the Commission finds that the AG's proposal is reasonable and should be accepted. The rates that the Commission establishes for Schedule I, Schedule II, and Schedule III use a flat energy charge. The Commission further finds that this rate design will result in a lower charge for most ratepayers, will send proper economic signals to those using larger amounts of electric power, and is consistent with the Commission's policy toward flat energy charges. Any adverse effects of this design change upon individual customers, moreover, is lessened as this rate design change comes as part of a total rate decrease.

CAPITAL CREDITS

In its Order of July 30, 1993 in Case No. 93-033,³ the Commission directed Meade County RECC to use all margins in excess of a 2.0 TIER ("Times Interest Earned Ratio")⁴ to rotate capital credits to its patrons. Although the issue of capital credit rotation was not raised in this proceeding, the Commission finds that all provisions of its final Order in Case No. 93-033 regarding earnings and capital credit rotation should remain in full force and effect until modified in a general rate proceeding. Meade County stated at the hearing that

³ Case No. 93-033, Notice of Adjustment of the Rates of Meade County Rural Electric Cooperative Corporation.

⁴ The ratio of the sum of net margin (total revenues less expenses and depreciation) and interest expense divided by interest expense.

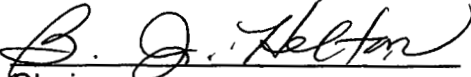
it would continue to comply with the terms of the July 30, 1993 Order until its next general rate adjustment proceeding.⁵

IT IS THEREFORE ORDERED that:

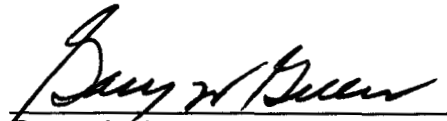
1. The rates in Appendix A are approved for service rendered on and after April 30, 1998.
2. Meade County RECC's proposed rates are denied.
3. Within 30 days of the date of this order, Meade County RECC shall file its revised tariff sheets setting forth the rates approved herein.
4. All terms and provisions of the Commission's Order of July 30, 1993 in Case No. 93-033 not specifically modified herein shall remain in full force and effect.

Done at Frankfort, Kentucky, this 6th day of May, 1998.

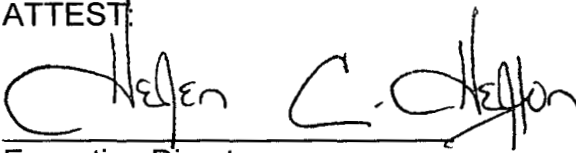
PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director

⁵ Transcript at 10.

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 97-209 DATED MAY 6, 1998

The following rates and charges are prescribed for the customers in the area served by Meade County Rural Electric Cooperative Corporation. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

RATE SCHEDULE 1 RESIDENTIAL, FARM AND NON-FARM, SCHOOLS AND CHURCHES

Monthly Rate:

Customer Charge	\$6.00
Energy Charge per KWH	\$.05619

RATE SCHEDULE 2 COMMERCIAL RATE

Monthly Rate:

Customer Charge	\$8.00
Energy Charge per KWH	\$.06250

RATE SCHEDULE 3 GENERAL SERVICE, 0-49 KVA

Monthly Rate:

Customer Charge	\$8.00
Energy Charge per KWH	\$.06009

Demand Charge

First 10 KW of Billing Demand	No charge
Excess above 10 KW of Billing Demand	\$2.84

RATE SCHEDULE 4
LARGE POWER SERVICE 50-999 KVA

Monthly Rate:

Demand Charge per KW of Billing Demand	\$2.84
Energy Charge per KWH for the first 100 KWH per KW of billing demand	\$.06106
For next 100 KWH per KW of billing demand	\$.05560
For next 100 KWH per KW of billing demand	\$.05333
For next 100 KWH per KW of billing demand	\$.05194

RATE SCHEDULE 5
OUTDOOR LIGHTING SERVICE
INDIVIDUAL CONSUMERS

Monthly Rate:

175 Watt Unmetered	\$6.47
175 Watt Metered	3.13
400 Watt Unmetered	9.20
400 Watt Metered	3.13

RATE SCHEDULE 6
STREET LIGHTING SERVICE
COMMUNITY, MUNICIPALITIES AND TOWNS

Monthly Rate:

175 Watt	\$5.68
400 Watt	\$8.47